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UNCLAS SECTION 01 OF 02 SANTO DOMINGO 005757

SIPDIS

STATE FOR WHA/CAR, WHA/EPSC, EB/TPP/ABT (HEARTNEY);
COMMERCE FOR ITA/OTEXA MARIA D'ANDREA;

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SUBJECT: DOMINICAN TEXTILES - PROSPECTS FOR PRODUCTION AND
LABOR

REF: A. SECSTATE 184238

[1](#)B. FAX KENDRICK/USDOC 04OCT2004

[1](#)1. Embassy Santo Domingo provides the following information
in response to reftel.

[1](#)2. Nominal GDP in billions of USD

FY 2002 21.6

FY 2003 16.8

Nominal Manufacturing GDP (industrial production) in billions
of USD

FY 2002 3.48 (16.1 percent of total GDP)

FY 2003 2.57 (15.3 percent of total GDP)

[1](#)3. Total textiles and apparel production in millions of USD

FY 2002 2,241.4

FY 2003 2,201.7

[1](#)4. Textiles and apparel's share of the Dominican Republic's
imports and exports

Exports (percentage)

FY 2002 43.4

FY 2003 40.5

Imports (percentage)

FY 2002 17.4

FY 2003 18.9

[1](#)5. Total manufacturing employment

FY 2002 441,301 (14.2 percent of total employment)

FY 2003 455,994 (14.7 percent of total employment)

Sources: Banco Central and the Consejo Nacional de Zonas
Franco de Exportacion.

TEXTILE AND APPAREL PRODUCTION IMPORTANT FOR DOMINICAN ECONOMY

[1](#)6. Textile and apparel production is very important to the
Dominican economy as it constitutes 13 percent of overall
production in the economy and provides more than 150,000 jobs
in a country of 8.2 million people. In 2003, total foreign
investment in the free zone textile sector amounted to 448.7
million dollars. U.S. investment in free-zone textile
facilities was 153 million dollars or 34.2 percent of the
free zone total. Textiles are an essential part of the
Dominican economy.

FREE ZONES DOMINATE TEXTILE AND APPAREL PRODUCTION

[1](#)7. Most textile based employment is concentrated in 269
enterprises in free-zone manufacturing activity throughout
the country. Most free zones are located in Santiago and
Santo Domingo. In 2003, textile manufacturers outside of the
free zones produced only 8.3 million dollars worth of
production of a 2.2 billion dollar industry or 3.7 percent of
textile production. The government-run Consejo Nacional de
Zonas Franco de Exportacion (CNZFE) generally collects
textile employment data on a quarterly basis though in some
years it has been collected only every six months. Each
quarter CNZFE officials send out by fax requests for
employment statistics from all textile enterprises in the
country. The response rate averages around 90 percent. The
Executive Director of CNZFE, Luisa Fernandez, volunteered
that the CNZFE has the ability to collect monthly data if
necessary. Once a year five officials from CNZFE conduct
visits and collect census data from all free zone textile
enterprises. During these census visits CNZFE officials
compile employment and production statistics. CNZFE is
financially supported both by the government and by free zone
enterprises and appears to have the resources to produce
accurate statistics on textile production and employment.

ESTIMATED 48,000 JOBS WOULD BE LOST AFTER QUOTA ELIMINATION

18. A USAID-financed study done by Nathan Associates in September 2004, estimates that the Dominican Republic's free zone textile and apparel industry will lose 48,628 direct jobs because of quota elimination and macroeconomic and financial conditions. (Note: since the USAID report the peso has appreciated by 42 percent relative to the dollar in the months of September and October) Ratification and implementation of a free trade agreement could mitigate these textile job losses, reducing them by almost 60 percent to 23,346 jobs. This analysis finds that if Dominican producers can become more cost-effective, meet buyer demands for full-package service, and streamline production chains, they will boost their competitive position in the U.S. market and could further reduce or even avoid job losses.

COMMENT AND POSSIBLE COURSES OF ACTION FOR DOMINICAN TEXTILES

19. Studies available to the embassy suggest that as a result of the ending of textile quotas as of January 2005, apparel shipments from the Dominican Republic will decline by 31 percent, resulting in a direct employment loss in the sector of 36,853 jobs. Higher costs related to the economic crisis, including new taxes and higher energy prices, will result in the loss of another 11,775 jobs in the sector - for total direct job losses of 48,628. A possible 10 percent appreciation of the Chinese renminbi could reduce the Dominican Republic's job losses by an estimated 2,750 jobs. In contrast, ratification and implementation of the trade agreement with the United States and the Central American states would mean direct job losses of 23,346 and a reduction of shipments by 419 million dollars. Dominican enterprise and the Dominican government could ameliorate these prospects by resorting to the following strategies:

- (a) assisting small and medium size firms to share resources and knowledge,
- (b) ratifying the free trade agreement and implementing its provisions,
- (c) designing and coordinating domestic policies on wages, taxes, and energy costs so as to maintain competitiveness and encourage new investments,
- (d) diversifying production from products with significant quota protection to products with significant tariff protection,
- (e) diversifying into new apparel markets, and
- (f) diversifying exports away from textiles and apparel.

10. (U) Drafted by Mark Kendrick.

11. (U) This report and others can be read on the SIPERNET at <http://www.state.sgov.gov/p/wha/santodomingo/index.cfm> along with extensive other current material.
HERTELL